

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 H-02 L-03 PRS-01 PA-01 SAJ-01 INT-05 IO-10

EA-06 /109 W

----- 129567

R 101422Z JUL 75

FM AMEMBASSY ANKARA

TO SECSTATE WASHDC 9903

INFO AMEMBASSY MOSCOW

AMCONSUL ISTANBUL

AMCONSUL IZMIR

AMCONSUL ADANA

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ETRD EAID UR TU

SUBJ: SOVIET-TURKISH ECONOMIC COOPERATION: NEW AGREEMENT

SIGNED JULY 9

REF: MOSCOW 9462

1. BEGIN SUMMARY: A NEW SOVIET-TURKISH ECONOMIC COOPERATION TREATY WAS SIGNED IN ANKARA ON JULY 9. FOREIGN MINISTER CAGLAYANGIL SIGNED FOR THE GOT AND SEMEN A. SKACHKOU, CHAIRMAN OF STATE COMMITTEE FOR FOREIGN ECONOMIC RELATIONS SIGNED ON BEHALF OF THE USSR. TREATY WAS DESCRIBED AS "FRAMEWORK" COVERING IN GENERAL TERMS THE EXPANSION OF THE ISKENDERUN STEEL MILL, THE SEYDISEHIR ALUMINUM COMPLEX AND CONSTRUCTION OF TWO 400 MW LIGNITE-FIRED THERMAL POWER PLANTS. EACH PROJECT WILL REQUIRE A LIMITED OFFICIAL USE

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SUPPLEMENTAL AGREEMENT COVERING FEASIBILITY AND TECHNICAL

DETAILS. TOTAL CREDIT PROVIDED IS APPROXIMATELY \$600 MILLION TO BE REPAYED IN COMMODITY CLEARING FORMAT OVER 12 YEARS AT AVERAGE THREE PERCENT INTEREST PER YEAR. END SUMMARY.

2. AGREEMENT IS THIRD IN SERIES. FIRST FOR \$288 MILLION WAS SIGNED BY PREVIOUS DEMIREL GOVERNMENT ON MARCH 2, 1967, FOR CONSTRUCTION OF FIRST STAGE ISKENDERUN IRON AND STEEL MILL, SEYDISEHIR ALUMINUM PLANT AND OTHER SMALLER PROJECTS. SECOND WAS SIGNED IN 1972 AND PROVIDED INCREASED CREDIT DUE TO INFLATIONARY COST OF PROJECTS THEN UNDER CONSTRUCTION.

3. INFORMATION CURRENTLY AVAILABLE INDICATES THAT THE BULK OF THE SOVIET CREDIT WILL BE FOR THE EXPANSION OF THE ISKENDERUN IRON AND STEEL MILL. THE EXPANSION OF THE MILL WILL COME IN TWO STAGES. EXPANSION OF STAGE 1 (CAPACITY OF ONE MILLION TONS TO BE REACHED IN 1977-78) TO STAGE 2 (2.2 MILLION TONS), AND STAGE 2 TO STAGE 3 (4 MILLION TONS PER YEAR). DURING THE 1972 DISCUSSIONS, WHICH DEALT WITH INCREASED CREDITS NEEDED TO FINISH STAGE 1, FEASIBILITY STUDIES INDICATED THAT STAGE 2 WOULD COST ABOUT \$250 MILLION AND STAGE 3 APPROXIMATELY \$500 MILLION. HIGHER COSTS HAVE RAISED THE ESTIMATES; IT IS NOW PROJECTED THAT TOTAL COST OF 4 MILLION TON COMPLEX WILL BE APPROXIMATELY \$1.5 BILLION.

4. EXPANSION PLANS FOR THE SEYDISEHIR ALUMINUM COMPLEX WILL BE DETERMINED IN A LATER AGREEMENT. PRESENT PLANT CAPACITY AT SEYDISEHIR AT FULL PRODUCTION IS 200,000 TONS OF ALUMINA PER YEAR. ETIBANK (STATE ECONOMIC ENTERPRISE THAT OWNS PLANT ESTIMATES THAT APPROXIMATELY 120,000 TONS OF ALUMINA WILL BE USED FOR PRODUCTION OF ALUMINUM INGOT AND 80,000 TONS OF ALUMINA WILL BE EXPORTED. UNDER THE TERMS OF THE ORIGINAL SEYDISEHIR CREDIT AGREEMENT, TURKEY AGREED TO EXPORT A CERTAIN PERCENTAGE OF THE ALUMINA TO THE USSR TO REPAY THE LOAN. (TURKEY EXPORTED 150,000 TONS OF ALUMINUM ORE TO THE USSR IN 1972 AND 1973 AND 44,000 TONS OF ALUMINA IN 1973; BOTH ARE LATEST DATA AVAILABLE.) ACCORDING TO NEWSPAPER ACCOUNTS THERE IS SOME DIFFERENCE OF OPINION ON THE PRODUCTION MIX BETWEEN ALUMINA AND ALUMINUM IN THE EXPANSION PLAN. THE USSR WANTS MORE ALUMINA WHEREAS THE GOT WANTS INCREASED PRODUCTION OF ALUMINUM INGOTS.

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5. THE 400 MW LIGNITE-FIRED THERMAL UNITS TO BE SET UP IN CANNAKALE AND BOLU PROVINCES MUST BE A WELCOME ADDITION TO THE AGREEMENT. THE HIGH PLANNING COUNCIL OF THE GOT HAS PLACED EXPANSION OF ELECTRIC POWER GENERATION AND TRANSMISSION AT THE TOP OF ITS AGENDA. POWER OUTAGES AT CRUCIAL TIMES HAVE CUT INDUSTRIAL PRODUCTION AND CAUSED SERIOUS COMPLAINTS FROM THE PRIVATE SECTOR. THE RUSSIANS, IN FACT, IN 1974, WERE

QUITE DISSATISFIED WITH THE SLOW PACE OF THE SEYDISEHIR PROJECT. THIS RESULTED PRIMARILY FROM A POWER SHORTAGE CAUSED BY SLOW CONSTRUCTION OF THE 380 KV LINE FROM KEBAN DAM TO SEYDISEHIR AND BREAKDOWNS OF THE POWER GENERATORS AT THE DAM SITE ITSELF.

6. COMMENT: TURKEY HAS BEEN GENERALLY SATISFIED WITH ITS PREVIOUS SOVIET COMMODITY CLEARING AGREEMENTS. IN LATE 1974, THE GOT MANAGED TO CONCLUDE TRADE AGREEMENTS WITH YUGOSLAVIA, POLAND, ROMANIA, BULGARIA, HUNGARY AND THE PEOPLE'S REPUBLIC OF CHINA IN CONVERTIBLE CURRENCY ACCOUNTS. AT THE TIME, THE UNDERSECRETARY OF COMMERCE MENTIONED THAT DUE TO TURKEY'S STRENGTHENED FOREIGN EXCHANGE RESERVE POSITION, THE GOT WOULD ALSO PREFER TO USE CONVERTIBLE CURRENCY SETTLEMENTS IN ANY NEW BILATERAL TRADE AGREEMENT CONCLUDED WITH THE USSR. THE RUSSIANS HAVE RESISTED THIS HOWEVER.

IN ADDITION, TURKEY'S FALLING RESERVE POSITION (FROM \$2 BILLION TO \$1.1

BILLION, IN LAST EIGHT MONTHS) AND SEVERE TRADE IMBALANCE (\$1.4 BILLION IN FIRST SIX MONTHS OF 1975) HAS TEMPERED PREVIOUS GOT DESIRES TO CONCLUDE CONVERTIBLE CURRENCY ACCORDS WITH THE USSR.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ANKARA05361
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750239-0010
From: ANKARA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750766/aaaachci.tel
Line Count: 139
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 MOSCOW 9462
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 20 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 MAY 2003 by ShawDG>; APPROVED <02 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOVIET-TURKISH ECONOMIC COOPERATION: NEW AGREEMENT SIGNED JULY 9
TAGS: ETRD, EAID, UR, TU
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006